

**ASSEMBLY BILL**

**No. 2638**

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**Introduced by Assembly Member Eng**

February 24, 2012

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An act to amend Sections 13305 and 13308 of, and to add Section 13305.5 to, the Government Code, relating to state government.

LEGISLATIVE COUNSEL'S DIGEST

AB 2638, as introduced, Eng. State government: fiscal affairs.

Existing law requires the Department of Finance to report annually to the Legislature with regard to tax expenditures. Existing law requires the report to include specified information.

This bill would require the report to include, if available, anticipated revenue loss pursuant to the final fiscal committee analysis of the act that established the tax expenditure, adjusted for inflation.

At the time of the submission of the Governor's Budget to the Legislature, existing law requires the Director of Finance to submit to the Legislature total recommended state General Fund expenditures and estimated state General Fund revenues, as specified.

This bill would require the report to include, for each tax expenditure exceeding \$5,000,000 in annual cost, an estimate of the loss of revenue due to the tax expenditure in the upcoming fiscal year. At that time, the bill would also require the State Board of Equalization and the Franchise Tax Board to submit to the Department of Finance and the Legislature a report on the fiscal and tax effect of all tax expenditures, as specified.

Vote: majority. Appropriation: no. Fiscal committee: yes.  
State-mandated local program: no.

*The people of the State of California do enact as follows:*

SECTION 1. Section 13305 of the Government Code is amended to read:

13305. (a) The department shall provide an annual report to the Legislature on tax expenditures by no later than September 15 of each year. The report shall include each of the following:

(1) A comprehensive list of tax expenditures exceeding five million dollars (\$5,000,000) in annual cost.

(2) The statutory authority *and year of enactment* for each credit, deduction, exclusion, exemption, or any other tax benefit as provided by state law.

(3) A description of the legislative intent for each tax expenditure, if the act adding or amending the expenditure contains legislative findings and declarations of that intent, or that legislative intent is otherwise expressed or specified by that act.

(4) The sunset date of each credit, deduction, exclusion, exemption, or any other tax benefit as provided by state law, if applicable.

(5) A brief description of the beneficiaries of the credit, deduction, exclusion, exemption, or other tax benefit as provided by state law.

(6) An estimate or range of estimates for the state and local revenue loss for the current fiscal year and the two subsequent fiscal years. For sales and use tax expenditures, this would include partial year exemptions and all other tax expenditures when the State Board of Equalization has obtained that information.

(7) For personal income tax expenditures, the number of taxpayers affected and returns filed, as applicable, for the most recent tax year for which full year data is available.

(8) For corporation tax and sales and use tax expenditures, the number of returns filed or business entities affected, as applicable, for the most recent tax year for which full year data is available.

(9) A listing of any comparable federal tax benefit, if any.

(10) A description of any tax expenditure evaluation or compilation of information completed by any state agency since the last report made under this section.

(11) *If available, anticipated revenue loss pursuant to the final fiscal committee analysis of the act that established the tax expenditure, adjusted for inflation.*

1 (b) For purposes of this section, “tax expenditure” means a  
2 credit, deduction, exclusion, exemption, or any other tax benefit  
3 as provided for by the state.

4 (c) This section shall become operative on January 1, 2007.

5 SEC. 2. Section 13305.5 is added to the Government Code, to  
6 read:

7 13305.5. (a) At the time of the submission of the Governor’s  
8 Budget pursuant to Section 12 of Article IV of the California  
9 Constitution, within the first 10 days of each calendar year, the  
10 State Board of Equalization and the Franchise Tax Board shall  
11 submit to the Department of Finance and the Legislature a report  
12 on the fiscal and tax effect of all tax expenditures. To the extent  
13 allowed under federal law, the report shall include the most recent  
14 data to characterize the economic, tax, and demographic profile  
15 of claimants, including, but not limited to, the following:

16 (1) An estimate or range of estimates for the state and local  
17 revenue loss for the current fiscal year and the two subsequent  
18 fiscal years. For sales and use tax expenditures, this shall include  
19 partial year exemptions and all other tax expenditures when the  
20 State Board of Equalization has obtained that information.

21 (2) If available, anticipated revenue loss pursuant to the final  
22 fiscal committee analysis of the act that established the tax  
23 expenditure, adjusted for inflation.

24 (b) The report shall facilitate a qualitative comparison of the  
25 benefits of the tax expenditures.

26 (c) For purposes of this section, “tax expenditure” means a  
27 credit, deduction, exclusion, exemption, or any other tax benefit  
28 as provided for by the state.

29 SEC. 3. Section 13308 of the Government Code is amended  
30 to read:

31 13308. (a) (1) At the time of the submission of the Governor’s  
32 Budget pursuant to Section 12 of Article IV of the California  
33 Constitution, within the first 10 days of each calendar year, or as  
34 soon thereafter as feasible, the Director of Finance shall submit to  
35 the Legislature total recommended state General Fund expenditures  
36 and estimated, including any proposed, state General Fund revenues  
37 that shall include the following:

38 (A) The five-year capital infrastructure plan required by Section  
39 13102.

1 (B) An estimate of the total General Fund resources, including  
2 any proposed resources, available for the state General Fund  
3 expenditures recommended for the budget year and the three fiscal  
4 years following the budget year.

5 (C) A projection of anticipated state General Fund expenditures  
6 recommended for the budget year and, for the three fiscal years  
7 following the budget year, the changes in those expenditure  
8 amounts that would likely result from changes in population,  
9 caseload, and similar factors.

10 (D) *For each tax expenditure exceeding five million dollars*  
11 *(\$5,000,000) in annual cost, an estimate of the loss of revenue due*  
12 *to the tax expenditure in the upcoming fiscal year. For purposes*  
13 *of this subparagraph, “tax expenditure” means a credit, deduction,*  
14 *exclusion, exemption, or any other tax benefit as provided for by*  
15 *the state.*

16 (2) To the extent possible, the total resources and expenditures  
17 provided pursuant to subparagraphs (B) and (C) of paragraph (1)  
18 shall be accompanied by the projections applicable to the budget  
19 year from the previous four enacted Budget Act projections.

20 (3) The information provided pursuant to subparagraphs (B) and  
21 (C) of paragraph (1) shall be updated as soon as feasible after both  
22 the submission pursuant to subdivision (e) of this section and upon  
23 enactment of the Budget Act.

24 (b) The Director of Finance shall provide to the Legislature, on  
25 or before February 1 of each year, all proposed statutory changes,  
26 as prepared by the Legislative Counsel, that are necessary to  
27 implement the Governor’s Budget, as described in subdivision (a)  
28 of Section 13337.

29 (c) The Director of Finance shall provide to the Legislature, on  
30 or before April 1 of each year, all proposed adjustments to the  
31 Governor’s Budget except as specified by subdivisions (d) and  
32 (e).

33 (d) The Director of Finance shall provide to the Legislature, on  
34 or before May 1 of each year, all proposed adjustments to the  
35 Governor’s Budget in appropriations for capital outlay.

36 (e) The Director of Finance shall provide to the Legislature, on  
37 or before May 14 of each year, all of the following:

38 (1) An estimate of General Fund revenues for the current fiscal  
39 year and for the ensuing fiscal year.

1     (2) Any proposals to reduce expenditures to reflect updated  
2 revenue estimates.

3     (3) All proposed adjustments to the Governor's Budget that are  
4 necessary to reflect updated estimates of state funding required  
5 pursuant to Section 8 of Article XVI of the California Constitution,  
6 or to reflect caseload enrollment or population changes.

7     (f) The Director of Finance may authorize suspension for the  
8 current fiscal year of any provision of this section not sooner than  
9 30 days after notification in writing of the necessity therefor to the  
10 chairperson of the committee in each house that considers the State  
11 Budget and the Chairperson of the Joint Legislative Budget  
12 Committee.